

## Letter to the Editor: Comment on Sabri Zire Al-Saadi's *Iraq's National Vision, Economic Strategy, and Policies*

### *Strategic Insights*, Volume V, Issue 4 (April 2006)

by [Misbah Kamal](#)

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### Introduction

Dear Editor:

Dr. Al-Saadi is a rare breed among contemporary Iraqi economists in advocating a national vision for Iraq. There is a plethora of writings about Iraq's economy but hardly any one touch the formulation of a vision. Most of them are concerned with the country's oil industry and the prospects for increasing the level of production and devising a role for the involvement of foreign oil companies and private investment.<sup>[1]</sup>

His latest contribution, "[Iraq's National Vision, Economic Strategy and Policies](#)," (*Strategic Insights* V, March 2006) continues and sums up previous studies published in many journals in Arabic and English including *MEES* (Middle East Economic Survey) and elsewhere.

Dr. Al-Saadi is rightly concerned with the urgent need for formulating what he calls a 'national vision' and macro-economic policies, both of which are missing in public discourse in Iraq. Though not stated, qualifying the vision as "national" is meant to be or presumes a vision that have the consensus of the majority of those concerned with formulating Iraq's economic policies. Such policies impact various vested interests inside and outside Iraq and are therefore an area of contention: what model of development to adopt, and what role to assign to the state and the public sector, or what remains of it, vis-à-vis the private sector and what role should be performed by foreign capital and a host of other questions.

One feels that the nature of the publication does not allow the writer to work out the ramifications of policies and the role assigned to various economic entities: private/public companies, ministries directly concerned with the economy, the role of state and the central bank as agent of economic development, etc. Nor did he have space to point to some of the consequences of policy prescriptions. However, the message is there: tinkering with the economy and demagogic sloganeering fundamental economic issues (for example, "oil wealth for the people") is not a recipe for sustainable economic development.

Because of the density of his writing, it would be most useful if the writer sets out his thoughts in the form of a textbook, in Arabic, to cater for a larger community of readers as much as the majority of the ill-informed Iraqi politicians on matters to do with the economy.[2] Many of them, while in opposition mainly in the West, were “businessmen” of one sort or another, i.e., they had some exposure or engaged in retail activity or contracting but that hardly qualifies them to engage in managing the economy, let alone designing economic policies. Hence their present obsession with political power while they are barricading themselves in the Green Zone.

Moreover, they have apparently surrendered budgeting and policy-making to the occupying power (the ground was laid by the U.S. proconsul Paul Bremer’s 100 or so ideologically motivated orders (Laws) in 2003-2004) and the army of consultants operating by remote control from Jordan, Cyprus, Kuwait, and elsewhere, regurgitating prescriptions taken from textbooks or blindly recommending policies applied in other countries or appealing to the re-structuring model of the IMF.

Indeed, the 2006 state budget, instead of being a vehicle for development, has been designed as an end in itself with heavy concentration on immediate needs, the provision of which are made to be consistent with international financial institutions. For example, raising the price of oil products in return for meagre measures in the area of social security; disregarding the spiral effect of such an increase on the cost and price of other goods and services; reducing rations in kind (the budget figures reduced the ration allocation from U.S. \$4 billion to \$3 billion, and this at a time when oil revenues in 2005 has increased compared with 2004 figures and the increase in the dollar reserves held by the Central Bank of Iraq).

Politics, with little economic content, has been and is the supreme and prime activity of these politicians and the economy is left to remote controllers (or their disciples in Iraq) and to reliance on oil revenues to finance state expenditure and to cover up budget deficits. That much they know about the significance of oil (Dr. Al-Saadi’s vision must look incomprehensible to them, since it was not part of their training nor was it advocated by a foreign consultant to have a significant value). They do not, of course, tire from repeating the privatisation mantra as a panacea for all the economic problems of Iraq and calling for foreign direct investment as though capitalists will rush to invest in volatile, corrupt economies and politically unstable terrorist-ridden countries (the corruption-infested activities of mainly U.S. and British contractors, in the wake of Iraq’s occupation, do not augur well for economically sound investments in Iraq).[3] In any case, these activities did not contribute to re-generating the Iraqi economy.

There are leaks, misuse, and abuse of Iraqi funds from Saddam’s era through the Iraq Development Fund and Bremer’s policies right up to the present. Since March 2003 these can be summed up under the following headings: corruption in its various forms including fraud,[4] expenditure on training (capacity building) abroad possibly at artificially high cost,[5] security protection (according to an IMF August 2005 report[6] all projects in Iraq eat up to 50% of the total cost), foreign consultants and advisers. Expenditure in these areas does not contribute to economic activity inside Iraq nor does it enhance effective aggregate demand à la Keynes for domestic industry. This to say nothing about the far more significant crude oil leaks (not only in the literal sense but also in the form of unaccounted flow attributed to lack of calibration equipment at loading terminals and smuggling).

The picture would not be complete without mentioning the disastrous policies of the U.S. pro-consul Paul Bremer in “smashing” the Iraqi state (in the crude Marxist fashion), instituting his own “dictatorship” (in the Roman *dictatura* sense)[7] and the unaccountable squandering of valuable funds (like a profligate but with a difference, as the funds were not his) that could and should have been properly spent on infrastructural works instead of painting schools using inflated indefinite duration/indefinite quantity contingency forms of contracts. This is to say nothing of the ill-thought enterprise of invading Iraq and inviting the Bin Laden-ites to Iraq as the U.S. battlefield

for the war against international terrorism. The political and economic consequences of the invasion are now the dominant reality stifling real progress in Iraq.

Dr. Al-Saadi's paper is premised on the existence/creation of a free market. The obverse of that premise, which is not stated, is a conviction in maintaining a significant role for the state—not necessarily along the South Korean model (1960 to the mid-1990s), i.e., strong state involvement in what used to be called during the Soviet era “the commanding heights of the economy.” This conviction is based on a perception (as I do not have facts and figures) that Iraq's “capitalist class” (the private sector) is weak not only numerically, but also in terms of the capital resources at its disposal. It has been historically weakened with the haphazard nationalisation of 1964. (Shopkeepers and intermediaries of various kinds are no substitute to industrial entrepreneurs nor is the currently fashionable microfinance sufficient for the large-scale development of the economy). The private sector itself needs “rehabilitation,” through properly thought of measures, to be able to engage in implementing part of the programme envisaged under Dr. Al-Saadi's Iraqi Development and Reconstruction Council (IDRC).<sup>[8]</sup>

The classic model of economic development, or should one say, growth, was hinged on the increase in the rate of capital accumulation and accumulation itself being determined by the rate of national saving. This assumes that saving leads to investment (expanding production capacity, introducing new technology and new products, penetrating and searching for new markets) and that with the increase in the rate of saving the production function is maximised leading to a higher growth rate. Protectionist economists would have favoured domestic saving as the fulcrum for the sought after accumulation. Increasingly, this was to be complemented by a flow of foreign “savings” in the form of loans, portfolio investment, banking deposits, and direct investment.

Al-Saadi's model is of course far removed from this classical framework since there is no mention of saving as an instrument of capital accumulation, or exclusive reliance on foreign loans. His *national* vision entails utilisation of endogenous resources (the private sector and oil revenue with capacity building of the labour force and market institutions, i.e. the model takes care of the basic functions underlying most growth models: the production function, the saving function, and labour supply function (related to population growth, although he does not dwell on this except in the context of capacity building and it is therefore assumed away).

His model has the virtue of focusing on two essentially inter-related elements: how to set economic growth in motion, after years of neglect and devastation, in the short- and medium-terms, and sustain it in the long term. If my understanding is correct, he is calling for the “creation” of a liberalised market free from state imposed barriers and an interventionist (proactive) role for the state, albeit in the form of the independently run IDRC, which is meant to kick-start the growth process and help develop domestic entrepreneurship. Oil revenues remain crucial for the implementation of the model, but these revenues, unless they are carefully managed, mortgage the sought-after IDRC to “foreign” influences (i.e. volatile oil prices and submission to international financial institutions, on which Iraq has limited (via OPEC) or no control). One feels that without a vision, as advocated by Dr. Al-Saadi, Iraq will continue to be a “rentier state” underpinned by revenues derived from oil production.

In concluding his study, Dr. Al-Saadi stated that Iraq has the “required human and natural resources to become a successful, democratic, and free market *economic model* in the Middle East.” [Emphasis added]. This is an optimistic vision, although this projection is based on the government and mainstream political parties adopting a well-defined strategy and policies for the short-, medium- and long-terms. Based on what is happening now, this is a well-intentioned dream-like vision. It is a forlorn hope as his own analysis of the National Development Strategy (NDS) shows that the pace of progress is sluggish, and this in itself is a pointer to what lies in the future.

Furthermore, the increasing dependence on foreign loans and grants, as he has pointed out, would deepen the structural economic problems and contribute to embedding corruption as an acceptable lever of economic activity.[9]

One can argue, based on a few random rhetorical questions, that the Iraqi economy is still stagnant:

- How many employment opportunities have been created since the invasion of Iraq?
- Has the level of real and disguised unemployment been reduced (variously estimated between 30%-50%)?
- How many public sector companies have been rehabilitated to become operational or made ready for privatisation? (Free trade and imports, instituted by Bremer, have resulted in lifting any kind of protection to Iraq's public and private industry and agriculture.)
- Has the rate of national saving increased?
- Has the volume of domestic investable income increased?
- Why have the "international community's" grants been reduced to a trickle if not stopped?
- When will politicians take leave from their ethnicity and think of Iraq as a whole? (We read statements of Kurdish politicians justifying exploration and production oil deals on constitutional grounds, and asserting that this wealth *will be used for the benefit of the people in the region*. So much goes for the concept of a "national economy" in the evolving ethnically-based regional economics, especially since we also hear of some governorates in the south threatening to disrupt oil supplies unless this or that economic or political good is delivered.
- And without sounding as though I am a believer in a conspiracy theory of politics, there is a serious question that needs an answer: who is killing Iraqis and why? Who is killing academics in large numbers? How many years does it take to produce an academic with minimum critical faculties in his/her discipline? (Evidently this has to be assessed as part of the overall brain drain from which the Iraqi economy has been suffering for many years).

These and other issues hardly point to Iraq becoming a model for the Middle East. It appears that the worst features of tribalism, warlordism, sectarianism, and other forms of backwardness are consolidating their presence in public life—and these will find their translation in the running of the economy.

Misbah Kamal  
London  
April 3, 2006

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## References

1. A notable exception is the work of Robert Looney who, since 2003, has followed the fortunes of Iraq's economy in a series of penetrating studies published in *Strategic Insights*, starting with "[A Monetary/Exchange Rate Strategy for the Reconstruction of Iraq](#)," *Strategic Insights* II, Issue 5

(May 2003), through to his latest, "[Labour Market Impediments to Stability in Iraq](#)," *Strategic Insights* IV, Issue 6 (June 2005).

2. Dr. Al-Saadi published a monograph in Arabic, part of which is written in technical economists' language, as part of a project that he calls the "economic project for the transformation of Iraq." The project calls for improving the management of the economy, assisting the creation and growth of wealth within the framework of individual economic freedom, private sector initiative, social security, and justice. In this study, he set out the conditions for the intervention of the post-dictatorship government in balancing the policies needed for maximising the use of oil rent for economic development and democracy, i.e. reversing the use of oil rent in sustaining dictatorship and maintaining the dependency of citizens on handouts (actual and through control of employment opportunities). Sabri Zre Al-Saadi, *Model of Economic Growth and Distribution in Iraq: oil wealth, management of the economy and social justice* (Baghdad: Dar Al-Adeeb Al-Baghdadiya Publication, 2003).

3. If the official purported reasons for invading Iraq in March 2003 are put aside, one has to find other reasons, and for some analysts these lie in the economic sphere where the United States is characterised as a hegemonic power, especially with the collapse of the Soviet Union and Soviet-type societies. In essence, the motivations lie in the logic of capital seeking geographical space for U.S. economic expansion, sustaining the U.S. economy through constant military expenditure ("military Keynesianism") and direct or indirect control over the economic directions of other national economies through, among others, access to flow of crude oil.

4. Ed Harriman, "[Cronyism and Kickbacks: Ed Harriman on the Economic Reconstruction of Iraq](#)," *London Review of Books* 28, No. 2, 26 (January 2006). According to Looney "Iraq has one of the highest levels of corruption in the world, falling to 137th in 2005 from 129th in 2004." Robert Looney, "[The Mirage of Terrorist Financing: The Case of Islamic Charities](#)," *Strategic Insights* V, Issue 3 (March 2006).

5. In a brief interview (*MEED Gulf Economic Review*, January 2006, 36-37) Dr. Sinan Al-Shabibi, governor of the Central Bank of Iraq, referred to the role of foreign banks in training Iraqi banking personnel outside Iraq. He stressed that on-the-job training should take place inside Iraq and argued that the current security conditions are surmountable: if foreign companies can operate in crime infested countries, like Colombia and Nigeria, they can equally overcome security problems in Iraq and factor the cost into their operations.

6. International Monetary Fund, [IMF Country Report No. 05/294, Iraq: 2005 Article IV Consultation](#), (August 2005), 7.

7. "Dictatorship" here is used with some licence. The intention is to characterise the rule of the U.S. representative in Iraq along the lines applied in the ancient Roman Republic: the emergency exercise of power by a trusted person for temporary and limited purposes. cf Hal Draper, *The 'Dictatorship of the Proletariat' From Marx to Lenin* (New York: Monthly Review Press, 1987), 11-12.

8. Because of the continuing deterioration in the security conditions, the private sector is increasingly being run from outside Iraq. The latest to do so are some of the private banks whose owners are operating from Jordan.

9. Cynics might argue that "bribernomics" is justified as a means for oiling the heavy wheels of bureaucracy in developing countries. This was indeed the case during Saddam's dictatorship, particularly under the UN sanctions regime 1990-2003. It was one way of supplementing the meagre incomes of state employees.

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